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**FOR IMMEDIATE RELEASE**

February 26, 1997

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## **STATEMENT OF HONORABLE DUNCAN HUNTER (R-CA) CHAIRMAN, MILITARY PROCUREMENT SUBCOMMITTEE**

### **NAVY SHIPBUILDING HEARING**

*February 26, 1997*

This afternoon we begin our examination of the Defense Department's Fiscal Year 1998 budget request—and when I say “we,” I mean both the Procurement and the R&D subcommittees, who will be holding joint hearings on more occasions than not this year! We began this precedent yesterday with a series of briefings from various Central Intelligence Agency analysts, and we will continue it over the next several weeks. Curt Weldon and I will share the chair in these joint hearings, and I would say to the gentleman from Pennsylvania that I look forward to working with him, his ranking member Owen Pickett, and all the rest of my colleagues on the R&D subcommittee.

The first hearing of the Procurement and R&D subcommittees in the 104<sup>th</sup> Congress was a joint one focused on six segments of the defense industrial base whose future prospects for surviving the Pentagon's then-and still-ongoing “procurement holiday” were not viewed with optimism. One of these segments was the shipbuilding industry. As a result of this and other hearings, our subcommittees spent a considerable amount of time on shipbuilding-related issues; and, when all was said and done in the 104<sup>th</sup>, added billions of dollars to the shipbuilding accounts—not only accelerating funding for ships whose construction starts had been postponed but providing a boost to the industry as well.

Nevertheless, questions about the long-term shipbuilding situation persist. Clearly the Navy cannot expect to sustain its 346-ship battle force fleet—a 200-ship reduction from the 1990 fleet size the Department's 1993 Bottom Up Review mandated be attained by 1999—at procurement rates of four to five new vessels annually, the lowest military ship production rates since the post-World War II demobilization of the late 1940s. During the 1980s, shipbuilding procurement accounted for 12.5% of the Navy's total budget. During the 1990s, however, and despite Congressional add-ons, this figure will likely end up averaging between 7% and 8%. As a consequence of the depressed 1990s funding, recapitalizing the fleet on a “catch up” basis will necessitate a substantial increase in funding beyond the turn of the century. However, as shown by the six-year

shipbuilding plan that accompanies the FY 98 budget request, such will not be the case—at least out to 2003.

It is also questionable whether the major shipyards can continue to operate on a long-term basis given the small number of Navy orders forecast and an equally, if not more, dismal outlook for commercial construction. Although there are 17 shipyards that have the capacity to build large (over 400 feet in length) naval vessels, only six are currently engaged in this activity. But at the low production rates noted above, these yards are operating at only a fraction of their combined capacity (about 30 ships per year). Moreover, even with the low levels of new Navy ship construction, Navy shipbuilding currently accounts for about **90 percent** of the total dollar value of the work done at these six yards. This is due in part to the fact that years of experience in building commercial vessels and the large subsidies granted by their governments have positioned our foreign competitors well ahead of U.S. yards in the infrastructure and skills needed to successfully compete in the commercial market. Only Newport News has been able to break into the commercial market, and at present, it is not clear whether the industry's efforts to get back into this market will succeed enough to substantially reduce its dependence on the Department of Defense.

Recent examples of concerns about the viability of these shipyards include:

- (1) The fact that the Navy chose to maintain both Bath and Ingalls as builders of the DDG-51, rather than consolidate construction at one yard. (However, contracts for new construction ships are allocated to each yard; they do not compete for these ships.)
- (2) The fact that the Navy chose to award contracts for the construction of 14 new sealift ships to two shipyards rather than one. The contracts were awarded to the two yards not involved in construction of nuclear-powered ships or surface combatants.
- (3) The fact that the five shipyards capable of building surface ships recently formed two teams to compete for the award of the first of a planned buy of 12 new amphibious transport ships (designated the LPD-17).
- (4) The fact that the losing team in the LPD-17 competition promptly protested the winning team's selection, allegedly on the basis that the contract was awarded to the winners (Avondale and Bath) for industrial base preservation reasons rather than on the basis of the best value to the government.
- (5) The fact that, due to Congressional concern, the Navy last week dispatched a team of industry experts to assess how much work Ingalls and Bath each needs to remain in business in the coming years.

The purpose of this hearing is to allow the subcommittees to understand the basis for and composition of the Navy's 1998-2003 shipbuilding plan and assess its adequacy to both begin to steadily modernize a 346-ship fleet and to keep the six major shipyards in business. We not only intend to discuss everything that is in—and, in some cases, not in—the Navy's new six-year shipbuilding plan but also proposed R&D funding for the so-called Arsenal Ship demonstrator and the SC-21, which is advertised as the next-generation surface combatant. As Members can see from the rather lengthy staff memo discussing the issues, we have a myriad of subjects to cover. With us this afternoon to help us sort through all these topics are:

**Honorable John W. Douglass**  
**Assistant Secretary of the Navy**  
**Research, Development, and Acquisition**

**Vice Admiral Donald L. Pilling**  
**Deputy Chief of Naval Operations for**  
**Resources, Requirements, and Assessments**

**Lieutenant General Jeffrey W. Oster**  
**Deputy Chief of Staff, Programs and Resources**  
**HQ, U.S. Marine Corps**

**Mr. Ronald O'Rourke**  
**Specialist in National Defense**  
**Congressional Research Service**  
**The Library of Congress**

**and**

**Mr. R.T.E. (Tom) Bowler, III**  
**President**  
**American Shipbuilding Association**

Let me welcome you all and thank you for being with us.